UNIT-1

Business Environment:

The term Business Environment is composed of two words Business'and Environment'. In simple terms, the state in which a person remains busy is known as Business. The word Business in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits.

Type of Environment:

Business Environment has two components:

1. Internal Environment
2. External Environment

1. Internal Environment: It includes 5 Ms i.e. man, material, money, machinery and management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise.

2. External Environment: Those factors which are beyond the control of business enterprise are included in external environment. These factors are: Government and Legal factors, Geo-Physical Factors, Political Factors, Socio-Cultural Factors, Demo-Graphical factors etc. It is of two Types:

1. Micro/Operating Environment
2. Macro/General Environment

1. Micro/Operating Environment: The environment which is close to business and affects its capacity to work is known as Micro or Operating Environment. It consists of Suppliers, Customers, Market Intermediaries, Competitors and Public.

(1) Suppliers: – They are the persons who supply raw material and required components to the company. They must be reliable and business Environment must have multiple suppliers i.e. they should not depend upon only one supplier.

(2) Customers: - Customers are regarded as the king of the market. Success of every business depends upon the level of their customer's satisfaction. Types of Customers: (i) Wholesalers (ii) Retailers (iii) Industries (iv) Government and Other Institutions (v) Foreigners

3) Market Intermediaries: - They work as a link between business and final consumers.

Types:- (i) Middleman (ii) Marketing Agencies (iii) Financial Intermediaries (iv) Physical Intermediaries

4) Competitors: - Every move of the competitors affects the business. Business has to adjust itself according to the strategies of the Competitors.

(5) Public: - Any group who has actual interest in business enterprise is termed as public e.g. media and local public. They may be the users or non-users of the product.

2. Macro/General Environment: – It includes factors that create opportunities and threats to business units. Following are the elements of Macro Environment:

(1) Economic Environment: - It is very complex and dynamic in nature that keeps on changing with the change in policies or political situations. It has three elements:

(i) Economic Conditions of Public

(ii) Economic Policies of the country

(iii) Economic System

(iv) Other Economic Factors: – Infrastructural Facilities, Banking, Insurance companies, money markets, capital markets etc.

(2) Non-Economic Environment: - Following are included in non-economic environment:-

(i) Political Environment: - It affects different business units extensively. Components:

(a) Political Belief of Government

(b) Political Strength of the Country

(c) Relation with other countries

(d) Defense and Military Policies

(e) Centre State Relationship in the Country

(f) Thinking Opposition Parties towards Business Unit

(ii) Socio-Cultural Environment: - Influence exercised by social and cultural factors, not within the control of business, is known as Socio-Cultural Environment. These factors include: attitude of people to work, family system, caste system, religion, education, marriage etc.

(iii) Technological Environment: - A systematic application of scientific knowledge to practical task is known as technology. Everyday there has been vast changes in products, services,

lifestyles and living conditions, these changes must be analyzed by every business unit and should adapt these changes.

(iv) Natural Environment: - It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc. Every business unit must look for these factors before choosing the location for their business.

(v) Demographic Environment:- It is a study of perspective of population i.e. its size, standard of living, growth rate, age-sex composition, family size, income level (upper level, middle level and lower level), education level etc. Every business unit must see these features of population and recognize their various needs and produce accordingly.

(vi) International Environment: - It is particularly important for industries directly depending on import or exports. The factors that affect the business are: Globalization, Liberalization, foreign business policies, cultural exchange.

Competitive structure of industries:

Competition with other firms is a key aspect of running a business of any size, from a brand new venture to a large corporation. In competitive markets, companies have to fight over the business of potential consumers. In economics, perfect competition refers to an ideal competitive environment that exhibits certain key structural characteristics beneficial to consumers.

Many Sellers and Many Buyers

One of essential components of a competitive industry is the presence of many different sellers of a particular good or service and many potential buyers. If a particular seller controls a large proportion of the market for a certain good or service, it may have the power to set the price for the product or service higher than it would if there were more competitors. In a perfectly competitive industry sellers do not determine the price of goods or services: the price is determined by market. When demand for a certain product or service is high in a competitive market, price will tend to rise, and when demand is low, prices will tend to fall.

Market Entry and Exit

A competitive industry allows firms to freely enter and exit the market and has few barriers to entry. For example, the market for pizza restaurants in a certain large city might be highly competitive, since anyone can choose to open a new pizza shop, and existing owners can close

their doors whenever they please. High costs, government regulations and other factors restrict the ability of firms to leave or enter a certain industry and serve to limit competition.

Perfect Information

In a perfectly competitive market, consumers and producers have perfect information about the products, prices and production practices in the market. If consumers don't know about all of their options or are unaware of price differences between different firms in a certain industry, firms are less able to compete for their business.

Similar Products

In a competitive industry, firms must offer products that are similar enough to one another to be considered interchangeable. For instance, a company that sells baseballs might not be in direct competition with a company that sells softballs, even though the balls are somewhat similar, because a baseball is not a substitute for a softball.

Monopoly

A monopoly is a market that only has one seller, while monopsony is a market with only one buyer. In a monopoly, the seller may charge prices higher than it would be able to charge in a competitive market, while the buyer in a monopsony may force sellers to accept a price below what they would charge in a competitive market.

Environmental analysis:

The totality of economic factors, such as employment, income, inflation, interest rates, productivity, and wealth that influence the buying behavior of consumers and institutions.

The benefits of environmental study are as follows:

* Development of broad strategies and long-term policies of the firm.
* Development of action plans to deal with technological advancements.
* To foresee the impact of socio-economic changes at the national and international levels on the firm's stability.
* Analysis of competitor's strategies and formulation of effective countermeasures.
* To keep oneself dynamic.

Environmental Analysis Process

The analysis consists of four sequential steps:

1. Scanning

It involves general surveillance of all environmental factors and their interactions in order to:

* Identify early signals of possible environmental change

* Detect environmental change already underway

2. Monitoring

It involves tracking the environmental trends, sequences of events, or streams of activities. It frequently involves following signals or indicators unearthed during environmental scanning.

3. Forecasting

Strategic decision-making requires a future orientation. Naturally, forecasting is an essential element in environmental analysis. Forecasting is concerned with developing plausible projections of the direction, scope, and intensity of environmental change.

4. Assessment

In assessment, the frame of reference moves from understanding the environment- the focus of scanning, monitoring and forecasting – to identify what the understanding means for the organization. Assessment, tries to answer questions such as what are the key issues presented by the environment, and what are the implications of such issues for the organization.

Strategic management:

It is the process of identifying and executing the organization's mission by matching its capabilities with the demand of its environment.

Process of strategic management

1. Goal-Setting

The purpose of goal-setting is to clarify the vision for your business. This stage consists of identifying three key facets: First, define both short- and long-term objectives. Second, identify the process of how to accomplish your objective. Finally, customize the process for your staff, give each person a task with which he can succeed. Keep in mind during this process your goals to be detailed, realistic and match the values of your vision. Typically, the final step in this stage is to write a mission statement that succinctly communicates your goals to both your shareholders and your staff.

2. Analysis

Analysis is a key stage because the information gained in this stage will shape the next two stages. In this stage, gather as much information and data relevant to accomplishing your vision. The focus of the analysis should be on understanding the needs of the business as a sustainable entity, its strategic direction and identifying initiatives that will help your business grow.

Examine any external or internal issues that can affect your goals and objectives. Make sure to identify both the strengths and weaknesses of your organization as well as any threats and opportunities that may arise along the path.

3. Strategy Formulation

The first step in forming a strategy is to review the information gleaned from completing the analysis. Determine what resources the business currently has that can help reach the defined goals and objectives. Identify any areas of which the business must seek external resources. The issues facing the company should be prioritized by their importance to your success. Once prioritized, begin formulating the strategy. Because business and economic situations are fluid, it is critical in this stage to develop alternative approaches that target each step of the plan.

4. Strategy Implementation

Successful strategy implementation is critical to the success of the business venture. This is the action stage of the strategic management process. If the overall strategy does not work with the business' current structure, a new structure should be installed at the beginning of this stage.

Everyone within the organization must be made clear of their responsibilities and duties, and how that fits in with the overall goal. Additionally, any resources or funding for the venture must be secured at this point. Once the funding is in place and the employees are ready, execute the plan.

5. Evaluation and Control

Strategy evaluation and control actions include performance measurements, consistent review of internal and external issues and making corrective actions when necessary. Any successful evaluation of the strategy begins with defining the parameters to be measured. These parameters should mirror the goals set in Stage 1. Determine your progress by measuring the actual results versus the plan. Monitoring internal and external issues will also enable you to react to any substantial change in your business environment. If you determine that the strategy is not moving

the company toward its goal, take corrective actions. If those actions are not successful, then repeat the strategic management process. Because internal and external issues are constantly evolving, any data gained in this stage should be retained to help with any future strategies.

Managing diversity:

The management and leadership of a workforce with the goal of encouraging productive and mutually beneficial interactions among the employees of an organization. Managing diversity aims at providing employees with backgrounds, needs, and skill sets that may vary widely with the opportunity to engage with the company and their co-workers in a manner that produces an optimal work environment and the best possible business results for the company.

Scope of business:

Business activities are classified into 2 parts-

1. Industry
2. Commerce

Industry: Industry is concerned with the production of goods & services. Industry is of 4 types**1.**

Manufacturing industries

2. Construction industries

3. Genetic industries

4. Service industries

Commerce:

Commerce is the whole system of an economy that constitutes an environment for business. The system includes legal, economic, political, social, cultural and technological systems that are in operation in any country. Thus, commerce is a system or an environment that affect the business prospects of an economy or a nation-state. It can also be defined as a component of business which includes all activities, functions and institutions involved in transferring goods from producers to consumers.

Characteristics of business:

The salient features of business are given below:

1. Creation of utilities:

Business makes goods more useful to satisfy human wants. It adds time, place, form and possession utilities to various types of goods. In the words of Roger, "a business exists to create and deliver value satisfaction to customers at a profit".

Business enables people to satisfy their wants more effectively and economically. It carries goods from place of surplus to the place of scarcity (place utility). It makes goods available for use in future through storage (time utility).

2. Dealings in goods and services:

Every business enterprise produces and/or buys goods and services for selling them to others.

Goods may be consumer goods or producer goods.

Consumer goods are meant for direct use by the ultimate consumers, e.g., bread, tea, shoes, etc.

Producer goods are used for the production of consumer or capital goods like raw materials, machinery, etc. Services like transport, warehousing, banking, insurance, etc. may be considered as intangible and invisible goods.

Services facilitate buying and selling of goods by overcoming various hindrances in trade.

3. Continuity in dealings:

Dealings in goods and services become business only if undertaken on a regular basis. According to Peterson and Plowman, "a single isolated transaction of purchase and sale will not constitute business recurring or repeated transaction of purchase and sale alone mean business."

For instance, if a person sells his old scooter or car it is not business though the seller gets money in exchange. But if he opens a shop and sells scooters or cars regularly, it will become business. Therefore, regularity of dealings is an essential feature of business.

4. Sale, transfer or exchange:

All business activities involve transfer or exchange of goods and services for some consideration. The consideration called price is usually expressed in terms of money. Business delivers goods and services to those who need them and are able and willing to pay for them.

For example, if a person cooks and serves food to his family, it is not business. But when he cooks food and sells it to others for a price, it becomes business. According to Peter Drucker "any organisation that fulfils itself through marketing a product or service is a business".

5. Profit motive:

The primary aim of business is to earn profits. Profits are essential for the survival as well as growth of business. Profits must, however, be earned through legal and fair means. Business should never exploit society to make money.

6. Element of risk:

Profit is the reward for assuming risk. Risk implies the uncertainty of profit or the possibility of loss. Risk is a part and parcel of business. Business enterprises function in uncertain and uncontrollable environment. Changes in customers' tastes and fashions, demand, competition, Government policies, etc. create risk. Food, fire, earthquake, strike by employees, theft, etc. also cause loss. A businessman can reduce risks through correct forecasting and insurance. But all risks cannot be eliminated.

7. Economic activity:

Business is primarily an economic activity as it involves production and distribution of goods and services for earning money. However, business is also a social institution because it helps to improve the living standards of people through effective utilisation of scarce resources of the society.

Only economic activities are included in business. Non-economic activities do not form a part of business.

8. Art as well as science:

Business is an art because it requires personal skills and experience. It is also a science because it is based on certain principles and laws.

The above mentioned characteristics are common to all business enterprises irrespective of their nature, size and form of ownership.

Objectives of environmental analysis:

• engage, assess, and critique an interdisciplinary scholarly literature;

• apply relevant theoretical techniques and methodological insights to environmental issues across the disciplines;

• conduct original archival, empirical and/or applied research, individually and collaboratively;

• speak and write clearly and persuasively;

• Understand the real-world dimensions of environmental problem-solving.

Uses of Environmental Analysis:

1. It should provide an understanding of current & potential changes taking place in the task environment.
2. It should provide input for decision making.
3. It should facilitate & foster thinking in organizations.

Limitations of Environmental Analysis:

1. Based on assumptions.
2. Not absolute truth.
3. Time consuming & expensive

Structure of Indian Economy:

Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Growth is usually calculated in real terms, i.e. inflation-adjusted terms, in order to net out the effect of inflation on the price of the goods and services produced. In economics, "economic growth" or "economic growth theory" typically refers to growth of potential output, i.e., production at "full employment," which is caused by growth in aggregate demand or observed output.

Economic growth focuses on the desire to improve a country's standard of living—the level of goods and services that, on average, individuals purchase or otherwise gain access to. It should be noted that if population has grown along with economic production, increases in GDP do not necessarily result in an improvement in the standard of living. When the focus is on standard of living, economic growth is expressed on a per capita basis.

Definition of 'Economic Growth':

An increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth can be measured in nominal terms, which include inflation, or in real terms, which are adjusted for inflation. For comparing one country's economic growth to another, GDP or GNP per capita should be used as these take into account population differences between countries

Economic growth per capita is primarily driven by improvements in productivity, also called economic efficiency. Increased productivity means producing more goods and services with the same inputs of labor, capital, energy, and/or materials. For example, labour and land productivity in agriculture were increased during the Green Revolution. The Green Revolution of the 1940s to 1970s introduced new grain hybrids, which increased yields around the world.

Economic development generally refers to the sustained, concerted actions of policymakers and communities that promote the standard of living and economic health of a specific area.

Economic development can also be referred to as the quantitative and qualitative changes in the economy. Such actions can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives. Economic development differs from economic growth. Whereas economic development is a policy intervention endeavor with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP. Consequently, as economist Amartya Sen. points out: “economic growth is one aspect of the process of economic development

GROWTH AND DEVELOPMENT:

Economic development is a broader term than economic growth Economic growth usually means the growth in production of an economy. On the other hand, economic development includes other factors such as latency health, child mortality rate, equality, regional balance, infbtmchrre, etc.

The difference between economic growth and economic development is a subtle Features of the one. Let us take the example of a child. As a child *grows* her weight and height increases.

Simultaneously, her capacity to lean, recognize and distinguish between objects *develops.* Thus growth is not sufficient; we need development also. Similarly, in the case of the Indian economy economic growth is not enough; we need economic development. We need better health of people, education for all, reduction in inequality among sections of people and regions, reduction in infant mortality rate (IMR), access to drinking water for all, etc. The government has to devise policies and allocate government expenditure so that these facilities are measurement of the level

of economic development is difficult, because it does not depend upon a single factor. There are a number of indicators of economic development. These indicators could be quite varied and too many .The per capita GDP along with annual growth rates of some of the economies. In order to make comparison possible we have given these figures in a comparable form (in purchasing power parity US$). You can see that Indian economy is not comparable to developed economies. The per capita GDP in India is much lower than in developed countries. However, it has a higher growth rate compared to others. Note that some of the countries have very low GDP per capita and have experienced decline in it over time (see, Nigeria and Tanzania, Economic Development Apart from low per capita income India is far below the developed economies in terms of development indicators. Some of these indicators are consumption of electricity, literacy rate, access to safe drinking water, empowerment of women, etc. United Nations Development Program me (UNDP) brings out a 'human development index' by combining several indicators of development such as life expectancy, education, per capita income, and empowerment of women. According to Human Development Report 2001, India ranks 1 15 out of 162 countries in terms of human development index .A positive feature of the Indian economy is that it is not stagnant; it is developing. It is one of the fastest growing economies in the world. There have been improvements in life expectancy, literacy, and availability of infrastructure.

Basic Characteristics of Indian Economy:

(a) Indian economy is basically an agricultural economy. More than 60% of the population is engaged in agriculture and allied activities.

(b) Low per capita income is the second feature of Indian economy. It is one of the lowest in the world.

(c) The occupational structure has not been changed during the last 100 years. In 1950-51 about 73% of the workers were engaged in primary activities, 11% in secondary and 16% in tertiary activities. In 1999-2000 the share of different sectors in employment amounted to 60%, 17% and 23% respectively.

(d) Inequality of income and wealth is other important feature of Indian economy. In India the main resources are concentrated in the hands of the few people. 40% of the total assets is concentrated in the hands of top 20 percent people.

(e) There has been remarkable improvement in social sectors such as education, health, housing, water supply, civic amenities etc.

(f) Planning process is also an important feature. As the government has adopted planned developmental economy. Five years plans are framed for economic development.

UNIT II

Industrial Policy:

The Government continued with industrial reforms in 1998-99. Coal and lignite, petroleum (other than crude) and its distillation products, bulk drugs and sugar were deli censed. At present, only five items of health, strategic and security considerations remain under the purview of industrial licensing. Coal and lignite and mineral oils were also removed from the list of industries reserved for the public sector. To provide a strong stimulus to the infrastructure sector, boost industrial growth and accelerate overall economic activity, the Union Budget substantially increased allocations for energy, transport and communications. The Budget also announced disinvestment of specified portions of equity from select PSEs like IOC, GAIL, CONCOR and VSNL. A separate package of measures was announced in the Budget for the SSI sector. A number of items including some farm implements and tools have been removed from the products reserved for exclusive manufacture by SSI sector. The prevailing customs tariff structure was revised to provide a level playing field to the domestic industry by imposing an additional non- moveable duty of 4 per cent on majority of imports. The duty was designed to compensate indigenous industry for price disadvantage suffered on account of sales tax and other local taxes.

Reforms initiated by the Government to revive the depressed capital markets and rejuvenate corporate growth include the issue of an ordinance permitting companies to buy back their own shares; awarding nomination facility to holders of shares/debentures and fixed deposits; permission for inter corporate investments without prior approval of the Government; establishment of Investor Education and Protection Fund; and statutory enforcement of Accounting Standards. Certain changes in the provision on buy-back of shares like restricting buy-back to 25 per cent of paid-up capital and free reserves and defining 'free reserves' for the

purpose of buy-back, have been introduced through the Companies (Amendment) Ordinance, 1999. The Government also constituted separate Task Forces on steel, capital goods and commercial vehicles for addressing the problems being faced by these industries. In the light of their recommendations, seven inputs used in steel manufacturing have been exempted from special customs duty. "Seconds" and "defectives" of specified steel inputs have been permitted for imports against specified values. It has been decided that depreciation, for income-tax purposes, will also be allowed at 40 per cent for commercial vehicles purchased between October 1, 1998 and March 31, 1999 and at 60 per cent in cases where purchase has been made to replace condemned vehicles (over 15 years of age) in the same period. A Council on Trade and Industry to the Prime Minister has been set up for deliberating on critical policy issues put forward by industry leaders for accelerating industrial growth.

Poverty:

What does it mean to be poor? How is poverty measured? Third World countries are often described as "developing" while the First World, industrialized nations are often "developed".

What does it mean to describe a nation as "developing"? A lack of material wealth does not necessarily mean that one is deprived. A strong economy in a developed nation doesn't mean much when a significant percentage (even a majority) of the population is struggling to survive.

Successful development can imply many things, such as (though not limited to):

• An improvement in living standards and access to all basic needs such that a person has enough food, water, shelter, clothing, health, education, etc

• A stable political, social and economic environment, with associated political, social and economic freedoms, such as (though not limited to) equitable ownership of land and property;

• The ability to make free and informed choices that are not coerced;

• Be able to participate in a democratic environment with the ability to have a say in one's own future;

• To have the full potential for what the United Nations calls Human Development:

• At household, community, societal, national and international levels, various aspects of the above need to be provided, as well as commitment to various democratic institutions that do not become corrupted by special interests and agendas.

• Yet, for a variety of reasons, these "full rights" are not available in many segments of various societies from the richest to the poorest. When political agendas deprive these possibilities in some nations, how can a nation develop? Is this progress?

• Politics have led to dire conditions in many poorer nations. In many cases, international political interests have led to a diversion of available resources from domestic needs to western markets. (See the structural adjustment section to find out more about this.) This has resulted in a lack of basic access to food, water, health, education and other important social services. This is a major obstacle to equitable development.

Inequality:

While poverty alleviation is important, so too is tackling inequality. Inequality is often discussed in the context of relative poverty, as opposed to absolute poverty.

That is, even in the wealthiest countries, the poor may not be in absolute poverty (the most basic of provisions may be obtainable for many) or their level of poverty may be a lot higher than those in developing countries, but in terms of their standing in society, their relative poverty can also have serious consequences such as deteriorating social cohesion, increasing crime and violence, and poorer health.

Some of these things are hard to measure, such as social cohesion and the level of trust and comfort people will have in interacting with one another in the society. Nonetheless, over the years, numerous studies have shown that sometimes the poor in wealthy countries can be unhappier or finding it harder to cope than poor people in poorer countries.

In the context of tackling poverty then, the Overseas Development Institute (ODI) for example sees poverty reduction as a *twin* function of

1. The rate of growth, and
2. Changes in income distribution.

The ODI also adds that as well as increased growth, additional key factors to reducing poverty will be:

• The reduction in inequality

• The reduction in income differences

A few places around the world do see increasing rates of growth in a positive sense. But globally, there is also a negative change in income distribution. The reality unfortunately is that the gap between the rich and poor is quite wide in most places.

Unemployment:

Unemployment (or joblessness) occurs when people are without work and actively seeking work. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. During periods of recession, an economy usually experiences a relatively high unemployment rate. According to International Labor Organization report, more than 197 million people globally are out of work or 6% of the world's workforce were without a job in 2012.

There remains considerable theoretical debate regarding the causes, consequences and solutions for unemployment. Classical economics, New classical economics, and the Austrian School of economics argue that market mechanisms are reliable means of resolving unemployment. These theories argue against interventions imposed on the labor market from the outside, such as unionization, bureaucratic work rules, minimum wage laws, taxes, and other regulations that they claim discourage the hiring of workers.

Keynesian economics emphasizes the cyclical nature of unemployment and recommends government interventions in the economy that it claims will reduce unemployment during recessions. This theory focuses on recurrent shocks that suddenly reduce aggregate demand for goods and services and thus reduce demand for workers. Keynesian models recommend government interventions designed to increase demand for workers; these can include financial stimuli, publicly funded job creation, and expansionist monetary policies.

In addition to these comprehensive theories of unemployment, there are a few categorizations of unemployment that are used to more precisely model the effects of unemployment within the economic system. The main types of unemployment include structural unemployment which

focuses on structural problems in the economy and inefficiencies inherent in labour markets, including a mismatch between the supply and demand of laborers with necessary skill sets.

Structural arguments emphasize causes and solutions related to disruptive technologies and globalization. Discussions of frictional unemployment focus on voluntary decisions to work based on each individuals' valuation of their own work and how that compares to current wage rates plus the time and effort required to find a job. Causes and solutions for frictional unemployment often address job entry threshold and wage rates. Behavioral economists highlight individual biases in decision making, and often involve problems and solutions concerning sticky wages and efficiency wages.

Limitations of the unemployment:

Some critics believe that current methods of measuring unemployment are inaccurate in terms of the impact of unemployment on people as these methods do not take into account the 1.5% of the available working population incarcerated in U.S. prisons (who may or may not be working while incarcerated), those who have lost their jobs and have become discouraged over time from actively looking for work, those who are self-employed or wish to become self-employed, such as tradesmen or building contractors or IT consultants, those who have retired before the official retirement age but would still like to work (involuntary early retirees), those on disability pensions who, while not possessing full health, still wish to work in occupations suitable for their medical conditions, those who work for payment for as little as one-hour per week but would like to work full-time.

These people are "involuntary part-time" workers, those who are underemployed, e.g., a computer programmer who is working in a retail store until he can find a permanent job, involuntary stay-at-home mothers who would prefer to work, and graduate and Professional school students who were unable to find worthwhile jobs after they graduated with their Bachelor's degrees.

Internationally, some nations' unemployment rates are sometimes muted or appear less severe due to the number of self-employed individuals working in agriculture. Small independent farmers are often considered self-employed; so, they cannot be unemployed. The impact of this is that in non-industrialized economies, such as the United States and Europe during the early

19th century, overall unemployment was approximately 3% because so many individuals were self-employed, independent farmers; yet, unemployment outside of agriculture was as high as 80%.

Many economies industrialize and experience increasing numbers of non-agricultural workers. For example, the United States' non-agricultural labour force increased from 20% in 1800, to 50% in 1850, to 97% in 2000. The shift away from self-employment increases the percentage of the population who are included in unemployment rates. When comparing unemployment rates between countries or time periods, it is best to consider differences in their levels of industrialization and self-employment.

It is possible to be neither employed nor unemployed by ILO definitions, i.e., to be outside of the "labour force."] These are people who have no job and are not looking for one. Many of these are going to school or are retired. Family responsibilities keep others out of the labour force. Still others have a physical or mental disability which prevents them from participating in labour force activities. And of course some people simply elect not to work, preferring to be dependent on others for sustenance.

Low Capital formation:

Capital formation is a concept used in macroeconomics, national accounts and financial economics. Occasionally it is also used in corporate accounts. It can be defined in three ways:

• It is a specific statistical concept used in national accounts statistics, econometrics and macroeconomics. In that sense, it refers to a measure of the *net additions* to the (physical) capital stock of a country (or an economic sector) in an accounting interval, or, a measure of the amount by which the total physical capital stock *increased* during an accounting period. To arrive at this measure, standard valuation principles are used

• It is used also in economic theory, as a modern general term for capital accumulation, referring to the total "stock of capital" that has been formed, or to the growth of this total capital stock.

• In a much broader or vaguer sense, the term "capital formation" has in more recent times been used in financial economics to refer to savings drives, setting up financial institutions, fiscal measures, public borrowing, development of capital markets, privatization of financial institutions, development of secondary markets. In this usage, it refers to any method for

increasing the amount of capital owned or under one's control, or any method in utilising or mobilizing capital resources for investment purposes. Thus, capital could be "formed" in the sense of "being brought together for investment purposes" in many different ways. This broadened meaning is not related to the statistical measurement concept nor to the classical understanding of the concept in economic theory. Instead, it originated in credit-based economic growth during the 1990s and 2000s, which was accompanied by the rapid growth of the financial sector, and consequently the increased use of finance terminology in economic discussions.

Industrial sickness:

Industrial sickness is defined in India as "an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year"

Industrial Sickness in India:

Industrial sickness specially in small-scale Industry has been always a demerit for the Indian economy, because more and more industries like – cotton, Jute, Sugar, Textiles small steel and engineering industries are being affected by this sickness problem.

As per an estimate 300 units in the medium and large scale sector were either closed or were on the stage of closing in the year 1976. About 10% of 4lakhs unit were also reported to be ailing.

And this position also remains same in the next decades. At the end of year 1986, the member of sick units in the portfolio of scheduled commercial banks stood at 1.47,740 involving an out standing bank credit of Rs. 487crores.

• Where the total numbers of large Industries which are sick were 637 units at the end of year 1985 increased to 714 units in the end of next year 1986.

• Likewise on the other hand the number of sick small scale units was also increased 1.18 lacks at the end of 1985 to 1.46lakhs at the end of 1986.

• The bank amount which was outstanding in case of large industries for the same period also increased from Rs.2,900 crores to Rs. 3287crores at the end of year 1986

• Dues of Small Scale sector also increased from Rs.1071crores to Rs.1306 at the end of the year 1986.

• Of the 147, 740 sick industrial units which contains large medium as well as small scale involving the total bank loan (credit) of Rs. 4874 at the end of the year 1986.

Causes of sickness in small scale industry:

The different types of industrial sickness in Small Scale Industry (SSI) fall under two important categories. They are as follows:

Internal causes for sickness:

We can say pertaining to the factors which are within the control of management. This sickness arises due to internal disorder in the areas justified as following:

a) Lack of Finance: This including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.

b) Bad Production Policies: The another very important reason for sickness is wrong selection of site which is related to production, inappropriate plant & machinery, bad maintenance of Plant & Machinery, lack of quality control, lack of standard research & development and so on.

c) Marketing and Sickness: This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate product mix, absence of product planning, wrong market research methods, and bad sales promotions.

d) Inappropriate Personnel Management: The another internal reason for the sickness of SSIs is inappropriate personnel management policies which includes bad wages and salary administration, bad labor relations, lack of behavioral approach causes dissatisfaction among the employees and workers.

e) Ineffective Corporate Management: Another reason for the sickness of SSIs is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of coordination and control etc.

External causes for sickness:

a) Personnel Constraint: The first for most important reason for the sickness of small scale industries are non availability of skilled labour or manpower wages disparity in similar industry and general labour invested in the area.

b) Marketing Constraints: The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restrain of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by govt. and market recession.

c) Production Constraints: This is another reason for the sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions.

d) Finance Constraints: The external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, fear of nationalization.

UNIT III

Macro Economics

Macro economics is a study of the economy as a whole, and the variables that control the macroeconomy. The study of government policy meant to control and stabilize the economy over time, that is, to reduce fluctuations in the economy is known as macro economics.

Macro economics also includes the study of monetary policy, fiscal policy, and supply-side economics.

The term Macro is derived from the Greek word "MAKROS" which means large. It deals with the aggregates such as national income, output, employment and the general price level etc, therefore it is called the **Aggregative Economics.**

According to Shapiro, "Macroeconomics deals with the functioning of the economy as a whole".

According to Boulding, "Macroeconomics deals not with individual quantities as such, but with aggregates of these quantities, not with individual income but with national income, not with individual output but with national output".

Prof. Ackley defines Macro Economics as "Macro Economics deals with economic affairs 'in the large, it concerns the overall dimensions of economic life. It looks at the total size and shape and functioning of the elephant of economic experience, rather than working of articulation or

dimensions of the individual parts. It studies the character of the forest, independently of the tress which compose it."

Why macroeconomics and not only microeconomics?

The whole is more complex than the sum of independent parts. It is not possible to describe an economy by forming models for all firms and persons and all their cross-effects.

Macroeconomics investigates aggregate behavior by imposing simplifying assumptions ("assume there are many identical firms that produce the same good") but without abstracting from the essential features.

These assumptions are used in order to build macroeconomic models. Typically, such models have three aspects: the 'story', the mathematical model, and a graphical representation.

Scope of Macroeconomics

The scope of macro economics has been explained as under:-

1. **Theory of National Income**:-Macro economics studies the concept of national income, its different elements, methods of its measurement and social accounting.

2. **Theory of Employment**:-It studies the problems of employment and unemployment. There are different factors which determine employment. They are like effective demand, aggregate demand, aggregate supply, total consumption, total savings and total investment etc.

3. **Marco Theory of distribution**:-There are macro economic theories of distribution. These theories try to explain how the national output is distributed among the factors of production.

4. **Economic development**:-.Economic development is a long run process. In it, we analyze the problems and theories of development.

5. **Theory of International Trade**:-It also studies principles determining trade among different countries. Tariff's protection and free-trade polices fall under foreign trade.

6. **Theory of Money**: - Changes in demand and supply of money effect level of employment. Therefore, under macro economics functions of money and theories relating to money are studied.

7. **Theory of Business Fluctuations**:-It also deals with the fluctuations in the level of employment, total expenditure, and general price level.

8. **Theory of General Price Level**:-A continuous rise in the price level is called inflation. It distorts production. It increases inequalities in the distribution of income and wealth. The common man is injured by inflation. Deflation is the opposite of inflation. The general price level falls continuously. Output and employment levels fall. Macro economics provides explanation provides explanation for the occurrence of inflation and deflation.

Importance of Macro economics

1. In Economic Policies

Macro Economics is extremely useful from the view point of the fiscal policy. Modern Governments, particularly, the underdeveloped economies are confronted with innumerable national problems. They are the problems of over population, inflation, balance of payments, general under production etc. The main conscientiousness of these governments rests in the regulation and control of over population, general prices, general volume of commerce, general productivity etc.

2. In General Unemployment

Redundancy is caused by deficiency of effectual demand. In order eradicate it, effective demand should be raised by increasing total investment, total productivity, total income and consumption. Thus, macro economics has special significance in studying the causes, effects and antidotes of general redundancy.

3. In National Income

The study of macro economics is very significant for evaluating the overall performance of the economy in terms of national income. This led to the construction of the data on national income. National income data help in anticipating the level of fiscal activity and to comprehend the distribution of income among different groups of people in the economy.

4. In Economic Growth

The economics of growth is also a study in macro economics. It is on the basis of macro economics that the resources and capabilities of an economy are evaluated. Plans for the overall increase in national income, productivity, employment are framed and executed so as to raise the level of fiscal development of the economy as a whole.

5. In Multi-dimensional Study

Macroeconomics has a very wide scope and covers multi-dimensional aspects like population, employment, income, production, distribution, consumption, inflation, etc.

6. In Monetary Problems

It is in terms of macro economics that monetary problems can be analysed and understood properly. Frequent changes in the value of money, inflation or deflation, affect the economy adversely. They can be counteracted by adopting monetary, fiscal and direct control measures for the economy as a whole.

7. In Business Cycle

Moreover, macro economics as an approach to fiscal problems started after the great Depression, thus its significance falls in analysing the grounds of fiscal variations and in providing remedies.

8. For Understanding the Behaviour of Individual Units

For understanding the performance of individual units, the study of macro economics is imperative. Demand for individual products depends upon aggregate demand in the economy.

Unless the causes of deficiency in aggregate demand are analysed it is not feasible to understand fully the grounds for a fall in the demand of individual products. The reasons for increase in costs of a specific firm or industry cannot be analysed without knowing the average cost conditions of the whole economy. Thus, the study of individual units is not possible without macro economics.

9. Helpful in understanding the functioning of an Economy

Modern economy has become a very complex affair. Several economic factors which are interdependent operate in it. To have an understanding of its organization and functioning one cannot depend on individual unit alone. Study of an economy as a whole, has therefore, become very essential.

10. Balance of Payment

It explains factors which determine balance of payment. At the same time, it identifies causes of deficit in balance of payment and suggests remedial measures.

Limitations of Macro Economics

1. **Danger of excessive thinking in terms of aggregates**: There is danger of executive thinking in terms of aggregates which are not homogeneous. For example, 2apples+3apples=5 apples is the meaning full aggregate, similarly 2 apples +3 oranges is meaningful to some extent.

2. **Aggregate tendency may not affect all sectors equally**: For example, the general increase in price affects different sections of the community or the different sectors of the economy differently. The increase in general level of price benefits the producers, but hurts the consumers.

3. **Indicates no change has occurred**: The study of aggregates makes us believe that no change has occurred even if there is a change. It indicates that there is no need of new policy. For example, a 5 percent fall in agricultural price and 5 percent rise in industrial prices does not affect the price level.

4. **Difficulty in the measurement of aggregates:** There are at times, difficulties in the measurement of aggregates. It is difficult to measure the big aggregates. This problem has now been more or less erased by the use of calculators and the things which are not homogeneous.

5. **The fallacy of composition**: The aggregate economic behavior is the sum of individual behavior. This is called fallacies of composition. What is true in case of an individual may not be true in the case of economy as whole. For example, individual saving is a virtue, whereas the public saving is vice. According to K.E. Boulding "These difficulties are aggregative paradoxes which are true when used to one person, but false when used to the economy as a whole.

6. **It ignores the contribution of Individual Units**: Macro economic analysis throws light only on the functioning of the aggregates. However, in real life, the economic activities and decision taken by individual units on private- level have their effects on the economy as a whole. Such effects are not known by the study of macro economics.

7. **Limited Application**: Another limitation of macro economics is that most of the models relating to it have only theoretical significance. They have very little use in practical life. Moreover it is very difficult to measure various aggregates of macro economics.

Macro economic variables:

Macroeconomic variable are generally classified as:

1. Endogenous Variables: These are those whose value is value is determined within the model. Some typical endogenous variables used in macroeconomic models are national income, consumption, savings, investment, market interest rate, price level and employment.

2. Exogenous Variables: These are those that are determined outside the models, e.g. money supply, tax rates, government expenditures, exchange rates, etc. However depending on the objective of analysis, endogenous variables are converted into exogenous variables, and exogenous variables can be endogenised.

Difference between Micro and Macro Economics

Micro Economics

1. Evolution of micro economics took place earlier than macro economics.
2. It deals with an individual's economic behavior.
3. It is a branch of economics, which studies individual economic variables like demand, supply, price etc.
4. It has a very narrow scope i.e. an individual, a market etc.
5. Demand, supply, market forms etc. relate to micro economics.
6. It is helpful in analysis of an individual economics unit like firm.
7. Theory of demand, theory of production, price determination theory etc., develop from micro economics.
8. The concepts of micro-economics are independent concepts.
9. These concepts have more theoretical value.
10. The concepts were popularized by the famous Alfred Marshall.
11. Worm's eye view/ Microscopic view
12. Method of Slicing
13. It is a mortal concept
14. Simple
15. Price Theory

Macro Economics

1. It evolved only after the publication of keynes' book. General theory of employment, interest and money.

2. It deals with aggregate economic behavior of the people in general.

3. It is a branch of economics which studies aggregate economic variables, like aggregate demand, aggregate supply, price level etc.

4. It has a very wide scope i.e. a country.

5. Aggregate demand, aggregate supply, national income etc. relate to macro economics.

6. It is helpful for analyzing the level of employment, income, economic growth etc.

7. Theory of national income, theory of employment, theory of money, theory of general price level etc. develop from macro economics.

8. The concepts of macro economics are interdependent on one another.

9. These concepts have more practical value.

10. The concepts were popularized by the famous Lord J.M. Keynes.

11. Bird's eye view

12. Method of Lumping

13. It is an immortal concept

14. Complex

15. Income theory

Circular Flow of Income

In economics, the terms circular flow of income or circular flow refer to a simple economic model which describes the reciprocal circulation of income between different sectors. A continuous flow of production, income and expenditure is known as circular flow of income. It is circular because it has neither any beginning nor an end. The circular flow of income involves two basic assumptions: - 1.In any exchange process, the seller or producer receives the same amount what buyer or consumer spends. 2. Goods and services flow in one direction and money payment to get these flow in return direction, causes a circular flow.

Two Sector Model:

It signifies that the expenditure of buyers (households) becomes income for sellers (firms). The firms then spend this income on factors of production such as labour, capital and raw materials, "transferring" their income to the factor owners. The factor owners spend this income on goods which leads to a circular flow of income.

The circular flow diagram divides the economy into two sectors: one concerned with producing goods and services, and the other with consuming them. Resources are converted into goods and services by business, and in this transformed state travel back to consumers. Money flows in the opposite direction. These flows involve two markets in which exchange takes place: the resource or factor market in which business buys resources, and the goods and services market in which business sells goods. (Some economists define a "factor of production" as the service of some resource. If resources are land, labor, and capital, the factors of production are the services of land, labor, and capital. We will ignore the distinction between resources and factors of production in the discussion that follows.)

Three Sector Model

It includes household sector, producing sector and government sector. It will study a circular flow income in these sectors excluding rest of the world i.e. closed economy income. Here flows from household sector and producing sector to government sector are in the form of taxes. The income received from the government sector flows to producing and household sector in the form of payments for government purchases of goods and services as well as payment of subsides and transfer payments. Every payment has a receipt in response of it by which aggregate expenditure of an economy becomes identical to aggregate income and makes this circular flow and unending.

Four Sector Model

A modern monetary economy comprises a network of four sector economy these are- 1.Household sector 2.Firms or Producing sector 3.Government sector 4.Rest of the world sector.

Each of the above sectors receives some payments from the other in lieu of goods and services which makes a regular flow of goods and physical services. Money facilitates such an exchange smoothly. A residual of each market comes in capital market as saving which in turn is invested in firms and government sector. Technically speaking, so long as lending is equal to the borrowing i.e. leakage is equal to injections, the circular flow will continue indefinitely.

However this job is done by financial institutions in the economy.

MULTIPLIER

The concept of multiplier occupies an important place in Keynesian theory of Income, Output and Employment. It is an important tool to analyze the effect of the changes in planned investment on the level of income. The concept of multiplier was first developed y R.F. Kahn a Cambridge economist in his article.

There are three types of multiplier:

1. Investment Multiplier (Two sector)
2. Balanced Budget Multiplier (Three sector)
3. Foreign Trade Multiplier (Four Sector)

Investment Multiplier (Multiplier in two sector model)

According to the keynes, "Investment multiplier tells us that when there is an increment of aggregate investment, income will increase by an amount which is K times the increment of investment."

In the words of Kurihara, "The multiplier is the ratio of change in income to the change in investment.

Formula of Investment Multiplier:

$$K=\_Y/\_I \ (1)$$

$$\_Y= K.\_I$$

Here, K=Multiplier, _Y= Change in Income, _I= Change in Investment.

Relation between Investment Multiplier and Marginal Propensity to consume

$$K=\_Y/\_I$$

We also know that,

$$Y=C+I$$

$$\_Y= \_C+\_I$$

$$\_I= \_Y-\_C$$

Here, _I= change in Investment, _Y=change in Income, _C= Change in consumption

Putting the value of _I in equation 1

$$K = \_Y/\_Y-\_C \ (\_I =\_Y-\_C)$$

$$K = \_Y/\_Y$$

$$\_Y/\_Y- \_C/\_Y \text{ OR}$$

K= 1/1-_C/_Y OR

K= 1/1-MPC (_C/_Y=MPC) OR

K= 1/MPS (1-MPC=MPS)

Balanced Budget Multiplier (Multiplier in three sector model)

Balanced budget multiplier (BBM) is relevant only in a closed economy in which government expenditure and tax are the important tools in the working of BBM.

Mr Wllich in his article, "Multiplier effect of Balanced Budget" published in Econometrica explains very clearly that public expenditure covered by taxes had an income generating effect, independent of numerical value of MPC and MPS.

Working of BBM

He working of balanced budget or the process of income determination on under balanced budget can be discuss on the basis of income determination model of Keynes under C+I+G. In such a case we start first with some equilibrium level of income determined on the basis of consumption and increase in investment expenditure. After that we increase government expenditure but government expenditure is not covered by tax and then examines the impact on income and employment when government expenditure is covered by direct taxes.

Example: Let C= 25+0.75Y

I=20

On the basis of AD and AS approach, equilibrium level of income is Y= 25 + 0.75Y + 20=180 i.e. 80 crores.

If now government expenditure is increased by Rs. 25 and suppose government expenditure is not covered by tax, than the income will increase by simple multiplier times the government expenditure. It is proved as under:

Y= C+I+G

Y= 25+0.75+20+25

Y-0.75Y=25+20+25

Y (1-0.75) = 70

Y=70/1-0.75

Y=280 crores in Rs.

Foreign Trade Multiplier (Multiplier in Four Sectors Models)

The concept of foreign Trade multiplier, in an open economy, explains the estimated effect on country's national income and employment due to excess of its exports over imports.

A country carrying foreign trade with another country may come to have excess of exports and imports. Income earned as a result of excess of exports over imports is like an injection in the income stream, and has the same multiplier effect on domestic income and employment as created by the initial increase in domestic Investment. The ratio of the final increase in income due to an initial increase in exports over imports is called foreign trade multiplier. Symbolically,

Kf = _Y/_X

The foreign trade multiplier also known as export multiplier operates like the investment multiplier of Keynes. It may be defined as the amount by which national income of a nation will be raised by a unit increase in domestic investment on exports. As exports increase there is an increase in the income of all persons associated with the exports industries. These in turn create demand for goods. But this is dependent upon their marginal propensity to save (MPS) and marginal propensity to import (MPM). The smaller these two propensities are, the larger will be the value of multiplier and vice versa.

In very simple terms we can say that foreign trade multiplier is a concept that states that net exports (exports minus imports) may magnify the impact on nation's income.

National Income

National income or national product is defined as the total market value of all the final goods and services produced in an economy in a given period of time. There are many concepts of national income which are used by different economists and all of which are inter-related.

The total net value of all goods and services produced within a nation over a specified period of time, representing the sum of wages, profits, rents, interest, and pension payments to residents of the nation.

It includes income from all the productive sectors such as Agricultural, Industrial and Service Industry.

Final Goods: Final goods are those goods which have crossed the boundary line of production, and are ready for use by their final users. Final users may be consumers and any firm. Final goods as used by the producers are called capital goods.

Intermediate Goods: These are those goods which are not out of the boundary line of production and are yet not ready for use by their final users. These used are largely used as raw material.

Depreciation: A reduction in the value of an asset with the passage of time, due in particular to wear and tear. Depreciation is a non-cash expense that reduces the value of an asset over time.

Assets depreciate for two reasons: Wear and tear.

Net factor income from abroad (NFIA): Factor income earned by our residents from abroad- Factor income earned by non residents within our country.

Transfer Payment: A payment made or income received in which no goods or services are being paid for, such as a benefit payment or subsidy.

A non-compensatory government payment to individuals, as for welfare or social security benefits is transfer payment. People sometimes get income without any productive activity.

Ex: Unemployment benefits, old age pensions etc.

Change in Stock: It is measured as the difference between "Closing Stock" of the accounting year and "Opening stock" of the accounting year.

Change in Stock = Closing Stock – Opening Stock

GDPMP: GDPMP refers to the market value of final goods and services produced within the domestic territory of a country during an accounting year.

GDPMP is the sum total of value added by all producing units within the domestic territory of a country during the period of an accounting year.

GNPMP: Gross National Product is the total market value of all final goods and services produced annually in a country plus net factor income from abroad.

GNP=GDP+NFIA (Net Factor Income from Abroad)

NNPMP: Net National Product is the market value of all final goods and services after allowing for depreciation. It is also called National Income at market price. When charges for depreciation are deducted from the gross national product, we get it. Thus,

NNP=GNP-Depreciation

Personal Income (PI): Personal Income i s the total money income received by individuals and households of a country from all possible sources before direct taxes. Therefore, personal income can be expressed as follows:

PI = NI - Corporate Income Taxes - Undistributed Corporate Profits - Social Security Contribution + Transfer Payments

Disposable Income (DI) : The income left after the payment of direct taxes from personal income is called Disposable Income. Disposable income means actual income which can be spent on consumption by individuals and families. Thus, it can be expressed as:

DI=PI-Direct Taxes

Per Capita Income (PCI): Per Capita Income of a country is derived by dividing the national income of the country by the total population of a country. Thus,

PCI=Total National Income/Total National Population

Measurement of National Income

1. Product Method or Value added Method
2. Income Method
3. Expenditure Method

Product Method/ Value added Method

Product method is that method, which measures domestic money by estimating the contribution of each enterprise to production in the domestic territory of the country in an accounting year.

Product method or Value added method is also known as *Industrial Origin Method or Net output Method or Inventory Method or Commodity Service method.*

Value added is the difference between value of output of an enterprise and the value of its intermediate consumption.

Value added= Value of Output- Value of Intermediate consumption

Value of Output= Sales (if entire output of the year is sold during the year)

Value of output= Sales + Change in Stock

Value added=GDP mp

To calculate the national income by this method, we need to identify and classify productive enterprises in three categories:

1. Primary Sector
2. Secondary Sector
3. Tertiary Sector

Primary Sector includes agriculture and allied activities such as animal husbandry fisheries, forestry, and mining etc. *The Secondary Sector* includes manufacturing sector which converts the raw materials into finished products. *The Tertiary Sector* is the service sector which includes services such as banking, insurance, transport, communication and trade etc.

After classification, net value added in each sector is calculated in an accounting year. Gross value added is found by deducting the intermediate consumption from the value of production generated.

Precautions used in production or value added method

1. The sale and purchase of old goods and included but the commission charges by agents in their transaction is a part of national income.
2. Imputed value of production for self-consumption is taken into account. Because, these goods are like those produced for the market.
3. Imputed rent on the owner occupied house is included. Because all houses have rental value, no matter these are self occupied or rented out.
4. Value of intermediate goods is not included into the estimation of national income.
5. Services for Self-consumption are not considered while estimating value added. Because it is difficult to estimate their market value like services of housewives.
6. Income from illegal activities is not included in national income.

Income Method

This method is also known as factor cost method. Under this method, national income is obtained by adding the incomes such as rent, wages, interest and profit received by all persons in the country during a year. In practice, the income figures are obtainable mostly from income tax returns, books of accounts and published accounts. To this, net income from foreign trade and

net investment from abroad should be added. According to income method, the net income payments received by all citizens of a country in a particular year are added up. The net incomes earned by the factors of production in the form of rent, wage, interest and profit aggregated but incomes in the form of transfer payments are not included in the national income.

NDPFC= Compensation of Employees + Operating Surplus + Mixed Income

Components of Income Method

Compensation of Employees: It includes Wages and salaries in cash, Employers contribution to social security scheme, Pension on retirement, Bonus, Allowances etc.

Operating Surplus: It includes rent and royalty, interest, profit (dividend +corporation tax+ undistributed profits).

***Mixed Income*:** It is the income of the self employed persons such as farmers, shopkeepers, doctors etc. They generate goods and services with the help of their own land, capital and labour and thus earn mixed income in the form of interest, profit rent and wages. This income is included in national income.

In India, this method is used for adding up the net income arising from trade, transport, public administration, professional and domestic services. Due to lack of popularity of personal accounting practices, this method cannot be fully used or practiced. This method is used only for some minor sectors. None of these methods alone will give a more correct figure.

Precautions:

1. All *transfer income* which does not represent earnings from productive services such as pension, scholarship, unemployment doles, lottery prize, etc. are not to be included as they are not earned by participating in the current production.
2. All unpaid services like services of a housewife are to be excluded.
3. All capital gains or loss (buying an old house, or resale of property) should be excluded.
4. Direct tax, revenue to the government should be subtracted from the total income as it is only transfer of income.
5. Undistributed profits of companies, income from government etc. should be added.
6. Subsidies given by the government should be deducted from profits of the subsidized industry.
7. Income from sale of second hand goods is not included in national income.

8. Income from sales and purchase of old shares is not included in national income.

Expenditure Method

Expenditure method is the method which measures final expenditure on gross domestic product at market price during an accounting year. Final expenditure is equal to the gross domestic product at market price. This is also called *"Income Disposal Method", Consumption and Investment Method".*

According to the expenditure method, the total expenditure incurred by the society in a particular year is added together. According to these methods total expenditure equals the national income.

Following items are included in it:

1. Private Final Consumption expenditure
2. Govt. final consumption expenditure
4. Gross domestic capital formation
5. Change in stock
6. Net exports.

1. Private Final Consumption Expenditure

It consists of expenditure on durable goods (e.g., furniture, cars, etc), non-durable goods (e.g., food items and toiletries) and services (e.g., hotels, educational institutions, hospitals, public transport, etc.,) by the household consumers.

The figures of private consumption expenditure may be collected from retail trade activities during an accounting period.

But the purchases made by non-residents and foreign visitors should be deducted from the final consumption expenditure in the domestic market whereas direct purchases made by resident households abroad during foreign travel should be included in consumption expenditure.

2. Government Final Consumption Expenditure

The government final consumption expenditure refers to the final consumption expenditure by the general government and it can be arrived at by summing up (a) value of net purchases in the domestic market, (b) net purchases abroad.

3. Gross Fixed Capital Formation

If consists of (a) Business fixed Investment, (b) Govt. Fixed Investment, (c) Investment on residential construction.

4. Change in Stock as Inventory Investment

Change in stock is the difference between the opening stock and closing stock. All enterprises and trading companies incur expenditure on stock of raw materials; semi finished goods or finished goods.

5. Net Exports of Goods and Services

It is the difference between the value of exports and imports of a country during an accounting period. What the foreigners spend on a country's exports is the part of expenditure on the Gross domestic product.

Precautions used in Expenditure method

1. Only expenditure on current final goods should be included so expenditure on second hand goods must not be added in aggregate expenditure.
2. The intermediate expenditure also must not be included as it leads to double counting.
3. Expenditure on transfer payments should not be taken account of.
4. Gross domestic capital formation already has in it the replacement of machines therefore these two items should not be separately included in aggregate expenditure.
5. Expenditure on financial transactions, e.g., shares and bonds should not be included because these transactions do not add to the flow of goods and services but only change the ownership of financial assets.
6. Only expenditure on final goods and services should be included in aggregate expenditure.
7. The aggregate expenditure got by adding up various components includes in itself the cost of depreciation. Thus, we have the concept of so as to arrive at the Net Domestic Product at market price; depreciation should be deducted from it.

Problems in measurement of National Income

There are many difficulties in measuring national income of a country accurately. The difficulties involved in national income accounting are both conceptual and statistical in nature. Some of these difficulties involved in the measurement of national income are discussed below:

1. Non Monetary Transactions

The first problem in National Income accounting relates to the treatment of non-monetary transactions such as the services of housewives to the members of the families. For example, if a man employees a maid servant for household work, payment to her will appear as a positive item in the national income. But, if the man were to marry to the maid servant, she would perform the same job as before but without any extra payments. In this case, the national income will decrease as her services performed remains the same as before.

2. Problem of Double Counting

Only final goods and services should be included in the national income accounting. But, it is very difficult to distinguish between final goods and intermediate goods and services. An intermediate goods and service used for final consumption. The difference between final goods and services and intermediate goods and services depends on the use of those goods and services so there are possibilities of double counting.

3. The Underground Economy

The underground economy consists of illegal and unclear transactions where the goods and services are themselves illegal such as drugs, gambling, smuggling, and prostitution. Since, these incomes are not included in the national income; the national income seems to be less than the actual amount as they are not included in the accounting.

4. Petty Production

There are large numbers of petty producers and it is difficult to include their production in national income because they do not maintain any account.

5. Public Services

Another problem is whether the public services like general administration, police, army services, should be included in national income or not. It is very difficult to evaluate such services.

6. Transfer Payments

Individual get pension, unemployment allowance and interest on public loans, but these payments creates difficulty in the measurement of national income. These earnings are a part of individual income and they are also a part of government expenditures.

7. Capital Gains or Loss

When the market prices of capital assets change the owners make capital gains or loss such gains or losses are not included in national income.

8. Price Changes

National income is the money value of goods and services. Money value depends on market price, which often changes. The problem of changing prices is one of the major problems of national income accounting. Due to price rises the value of national income for particular year appends to increase even when the production is decreasing.

9. Wages and Salaries paid in Kind

Additional payments made in kind may not be included in national income. But, the facilities given in kind are calculated as the supplements of wages and salaries on the income side.

10. Illiteracy and Ignorance

The main problem is whether to include the income generated within the country or even generated abroad in national income and which method should be used in the measurement of national income.

11. Second hand transactions

12. Inadequate and unrealistic statistics

National Income in India

In India, a systematic measurement of national income was first attempted in 1949. Earlier many attempts were made by some individual and institutions. In 1949, a National Income Committee (NIC) was appointed with P.C. Mahalanobis as its chairman, and D.R. Gadgil and V.K.R.V. Rao as members. The NIC not only highlighted the limitations of the statistical system of that time but also suggested the ways and means to improve data collection systems.

In 1967, the task of estimating national income was assigned to the Central Statistical Organization (CSO). The CSO adopted a relatively improved methodology nad procedure which had become possible due to increased availability of data. The CSO publishes its estimates in its publication, *Estimates of National Income.*

Currently, Output and income Methods are used by the CSO to estimate the national Income of the country. The output method is used for agriculture, and manufacturing sectors, i.e., the commodity producing sectors. Income method is used for the services sectors including trade,

commerce, transport and government services. The national income is estimated at both constant and current price.

Macro Economic Framework

Classical Model

Classical economics is widely regarded as the first modern school of economic thought. Its major developers include Adam Smith, Jean-Baptiste Say, David Ricardo, Thomas Malthus and John Stuart Mill.

Classical economists claimed that free markets regulate themselves, when free of any intervention. Adam Smith referred to a so-called invisible hand, which will move markets towards their natural equilibrium, without requiring any outside intervention.

Assumptions of Classical Approach

1. There is existence of full employment without inflation
2. There is a laissez faire capitalist economy without government interference
3. It is a closed economy without foreign trade
4. There is a perfect competition in labour and product markets
5. Total Output of the economy is divided between consumption and investment expenditure
6. The quantity of money is given and money is only the medium of exchange
7. Wages and Prices are perfectly flexible
8. Constant Technology
9. Equality between saving and investment

Say's Law of Market: According to Say's Law "S*upply creates its own demand"*, i.e., the very act of producing goods and services generates an amount of income equal to the value of the goods produced. Say's Law can be easily understood under barter system where people produced (supply) goods to demand other equivalent goods. So, demand must be the same as supply. Say's Law is equally applicable in a modern economy. The circular flow of income model suggests this sort of relationship. For instance, the income created from producing goods would be just sufficient to demand the goods produced.

Saving-Investment Equality: There is a serious omission in Say's Law. If the recipients of income in this simple model save a portion of their income, consumption expenditure will fall

short of total output and supply would no longer create its own demand. Consequently there would be unsold goods, falling prices, reduction of production, unemployment and falling incomes.

However, the classical economists ruled out this possibility because they believed that whatever is saved by households will be invested by firms. That is, investment would occur to fill any consumption gap caused by savings leakage. Thus, Say's Law will hold and the level of national income and employment will remain unaffected.

Wage Flexibility: The classical economists also believed that a decline in product demand would lead to a fall in the demand for labour resulting in unemployment. However, the wage rate would also fall and competition among unemployed workers would force them to accept lower wages rather than remain unemployed. The process will continue until the wage rate falls enough to clear the labour market. So a new lower equilibrium wage rate will be established. Thus, involuntary unemployment was logical impossibility in the classical model.

Keyne's Criticism of Classical Theory:

J.M. Keynes criticized the classical theory on the following grounds:

1. According to Keynes saving is a function of national income and is not affected by changes in the rate of interest. Thus, saving-investment equality through adjustment in interest rat is ruled out. So Say's Law will no longer hold

2. The labour market is far from perfect because of the existence of trade unions and government intervention in imposing minimum wages laws. Thus, wages are unlikely to be flexible. Wages are more inflexible downward than upward. So a fall in demand (when S exceeds I) will lead to a fall in production as well as a fall in employment.

3. Keynes also argued that even if wages and prices were flexible a free enterprise economy would not always be able to achieve automatic full employment.

Keynesian theory of Employment

Assumptions

1. The theory is applicable in advanced capitalistic Economy

2. Assumption of short period

3. Assumption of Perfect competition

4. Closed economy

5. It ignores the role of Government as a spender and Taxer

6. No time lag

7. Money also act as a store of value

8. Labour is the only variable factor of production

9. Under Employment Equilibrium

Saving depends upon income and Investment depends upon Rate of Interest Keynes has strongly criticised the classical theory in his book 'General Theory of Employment, Interest and Money'. His theory of employment is widely accepted by modern economists.

Keynesian economics is also known as 'new economics' and 'economic revolution'. Keynes had invented new tools and techniques of economic analysis such as consumption function, multiplier, marginal efficiency of capital, liquidity preference, effective demand, etc. In the short run, it is assumed by Keynes that capital equipment, population, technical knowledge, and labour efficiency remain constant. That is why, according to Keynesian theory, volume of employment depends on the level of national income and output. Increase in national income would mean increase in employment. The larger the national income the larger the employment level and vice versa. That is why, the theory of Keynes is known as 'theory of employment' and 'theory of income'.

Theory of Effective Demand:

According to Keynes, the level of employment in the short run depends on aggregate effective demand for goods in the country. Greater the aggregate effective demand, the greater will be the volume of employment and vice versa. According to Keynes, the unemployment is the result of deficiency of effective demand. Effective demand represents the total money spent on consumption and investment. The equation is:

Effective demand = National Income (Y) = National Output (O)

The deficiency of effective demand is due to the gap between income and consumption. The gap can be filled up by increasing investment and hence effective demand, in order to maintain

employment at a high level. According to Keynes, the level of employment in effective demand depends on two factors:

(a) Aggregate supply function, and

(b) Aggregate demand function.

(a) Aggregate supply function:

According to Dillard, the minimum price or proceeds which will induce employment on a given scale, is called the 'aggregate supply price' of that amount of employment.

If the output does not fetch sufficient price so as to cover the cost, the entrepreneurs will employ less number of workers.

Therefore, different numbers of workers will be employed at different supply prices.

Thus, the aggregate supply price is a schedule of the minimum amount of proceeds required to induce varying quantities of employment.

We can have a corresponding aggregate supply price curve or aggregate supply function, which slopes upward to right.

(b) Aggregate demand function:

The essence of aggregate demand function is that the greater the number of workers employed, the larger the output. That is, the aggregate demand price increases as the amount of employment increases, and vice versa.

The aggregate demand is different from the demand for a product. The aggregate demand price represents the expected receipts when a given volume of employment is offered to workers.

The aggregate demand curve or aggregate demand function represents a schedule of the proceeds of the output produced by different methods of employment.

Difference between Classical and Keynes Model

Classical

1. Economy is in full employment
2. The wages and prices are very flexible
3. There is no need of fiscal or monetary policy
4. The Aggregate supply curve is Vertical according to classical so any rise in aggregate demand will increase prices not production

5. There is a direct relationship between the money supply and the price level

6. Saving-investment equality is brought about by the rate of interest mechanism.

7. Supply creates its own demand

8. Laissez Faire or Capitalistic economy

9. Automatic adjustment works

10. Long run concept

11. Saving is good

Keynesian

1. Economy may not be in full employment in short run

2. Wage are rigid and prices are sticky (menu cost etc)

3. Fiscal as well as monitory policy may be needed to correct the disequilibrium or improve the efficiency of economy

4. Aggregate supply is upward sloping in the short run so a rise in aggregate demand may rise the production as well

5. No such direct relationship exists between the money supply and price level. The relation is only indirect.

6. The equality between saving and investment is brought about by the income level.

7. Demand creates its own supply

8. No is no adjustments

9. No laissez Faire

10. Short run

11. Saving is bad

Consumption Function

It is a functional relationship between two aggregates i.e., total consumption and National income. Consumption is an increasing function of income. It was developed by John Maynard Keynes

Symbolically, C= f (Y)

Consumption expenditure increases with increase in income.

But increase in consumption is less than increase in income. It is known as *Fundamental Psychological Law"*.

Consumption Schedule It is the tabular representation of various amounts of consumption expenditure corresponding to different levels of income.

Consumption is basically of two types:

Autonomous Consumption: This is the level of consumption which does not depend on income. The argument is that even with zero income you still need to buy enough food to eat, through borrowing or running down savings.

Induced Consumption: This is that level of consumption which depends on income and varies at different level of income. When income increases, induced consumption also increases.

This function can be written as

$$C= Ca + bY$$

Where

C= Total consumption

Ca= Autonomous Consumption

By=Induced Consumption (b= Marginal Propensity to consume and Y= income)

Consumption ©

Induced

Consumption

Ca+bY

Autonomous

Consumption

Income (Y)

Propensity to Consume

Propensity to consume is of two kinds:

• Average Propensity to Consume

• Marginal Propensity to Consume

Average Propensity to consume: APC is the ratio of total consumption to total income. It is found by dividing the total consumption with total income.

APC= C/Y

Marginal Propensity to consume: MPC is defined as the ratio of change in consumption to change in change in income. It is found by dividing the change in consumption expenditure with the change in income.

MPC =_C/_Y

Characteristics of MPC

1. It is always positive
2. It is greater than zero and less than utility
3. MPC of the poor class is higher
4. Constant MPC in the long period
5. Falling MPC in the short period
6. MPC can be greater than 1 in abnormal conditions

Saving Function

Saving function may be defined as a schedule showing amounts that will be saved at different level of income.

S=f(Y)

Saving increases with increase in income and decreases with decrease in income, i.e., saving is income elastic.

Propensity to Save

Average Propensity to Save: APS is the ratio between total saving (S) and total income (Y) at a given level of income and employment in the economy.

APS= S/Y

Marginal Propensity to Save: MPS is defined as the ratio of change in consumption to change in income. It is found by dividing the change in consumption expenditure with the change in income.

MPS= _S/_Y

Relationship between Consumption and Saving Function

1. When consumption is more than income than saving is negative or when consumption graph is above to income graph than saving is negative.

C>Y, than S becomes -S

2. When consumption becomes equals to income or consumption graph meet to income graph at that time saving is zero.

C=Y, than S=0

3. When consumption is less than income or consumption graph is below to income than saving increases and becomes positive.

C<Y, than S becomes +S

Relationship between APC and APS

We know that

APC = C/Y and

APS = S/Y

Y = C + S

Divide both side by Y

Y/Y = C/Y + S/Y

1 = C/Y + S/Y

1 = APC + APS

1 - APC = APS

Relationship between MPC and MPS

We know that

MPC = dC/dY and

MPS = dS/dY

Y = C + S

And, dY= dC+dS

Divide both side by dY

dY/dY = dC/dY + dS/dY

1 = dC/dY + dS/dY

1 = MPC + MPS

1 - MPC = MPS

Investment Function

An investment function is a concept or strategy within economics that helps to identify the connection between shifts in the national income and the investment patterns that take place within that particular national economy. In this type of situation, a function would be any variable within the framework of the economy that would motivate investors to change their typical buying and selling habits as a means of either taking advantage of the economic shift in a bid to increase their returns or to minimize the amount of loss incurred as a result of that shift. In weighing variables, the investor will consider the current level of gross domestic product (GDP) as well as the average interest rates that currently apply within the economy.

The investment function is a summary of the variables that influence the levels of aggregate investments. It can be formalized as follows:

$$I=f(r,\_Y,q)$$

Types of Investment

Different types or kinds of investment are discussed in the following points.

1. Autonomous Investment

Investment which does not change with the changes in income level, is called as Autonomous or Government Investment. Autonomous Investment remains constant irrespective of income level. Which means even if the income is low, the autonomous, Investment remains the same. It refers to the investment made on houses, roads, public buildings and other parts of Infrastructure. The Government normally makes such a type of investment.

2. Induced Investment

Investment which changes with the changes in the income level, is called as Induced Investment. Induced Investment is positively related to the income level. That is, at high levels of income entrepreneurs are induced to invest more and vice-versa. At a high level of income, Consumption expenditure increases this leads to an increase in investment of capital goods, in order to produce more consumer goods.

3. Financial Investment

Investment made in buying financial instruments such as new shares, bonds, securities, etc. is considered as a Financial Investment.

However, the money used for purchasing existing financial instruments such as old bonds, old shares, etc., cannot be considered as financial investment. It is a mere transfer of a financial asset from one individual to another. In financial investment, money invested for buying of new shares and bonds as well as debentures have a positive impact on employment level, production and economic growth.

4. Real Investment

Investment made in new plant and equipment, construction of public utilities like schools, roads and railways, etc., is considered as Real Investment.

Real investment in new machine tools, plant and equipments purchased factory buildings, etc. increases employment, production and economic growth of the nation. Thus real investment has a direct impact on employment generation, economic growth, etc.

5. Planned Investment

Investment made with a plan in several sectors of the economy with specific objectives is called as Planned or Intended Investment.

Planned Investment can also be called as Intended Investment because an investor while making investment, make a concrete plan of his investment.

6. Unplanned Investment

Investment done without any planning is called as an Unplanned or Unintended Investment.

In unplanned type of investment, investors make investment randomly without making any concrete plans. Hence it can also be called as Unintended Investment. Under this type of investment, the investor may not consider the specific objectives while making an investment decision.

7. Gross Investment

Gross Investment means the total amount of money spent for creation of new capital assets like Plant and Machinery, Factory Building, etc.It is the total expenditure made on new capital assets in a period.

8. Net Investment

Net Investment is Gross Investment less (minus) Capital Consumption (Depreciation) during a period of time, usually a year.

It must be noted that a part of the investment is meant for depreciation of the capital asset or for replacing a worn-out capital asset. Hence it must be deducted to arrive at net investment.

Marginal Efficiency of Capital MEC

The Marginal efficiency of capital displays the expected rate of return from investment, in a particular given time. The marginal efficiency of capital is compared to the rate of interest.

Keynes described the marginal efficiency of capital as:

"The marginal efficiency of capital is equal to that rate of discount which would make the present value of the series of annuities given by the returns expected from the capital asset during its life just equal to its supply price." - J.M.Keynes, General Theory.

This theory suggests investment will be influenced by:

1. The marginal efficiency of capital
2. The interest rates

Generally, a lower interest rate makes investment relatively more attractive.

If interest rates, were 3%, then firms would need an expected rate of return of at least 3% from their investment to justify investment. If the marginal efficiency of capital was lower than the interest rate, the firm would be better off not investing, but saving the money.

Why are interest rates important for determining the Marginal efficiency of capital?

To finance investment, firms will either borrow or reduce savings. If interest rates are lower, it's cheaper to borrow or their savings give a lower return making investment relatively more attractive.

Marginal Efficiency of Capital

A cut in interest rates from R1 to R2 will increase investment to I2.

The alternative to investing is saving money in a bank, this is the opportunity cost of investment.

If the rate of interest is 5% then only projects with a rate of return of greater than 5% will be profitable.

Factors which shift the Marginal Efficiency of Capital

1. **The cost of capital**. If capital is cheaper, then investment becomes more attractive. For example, the development of steel rails made railways cheaper and encouraged more investment.

2. **Technological change**. If there is an improvement in technology, it can make investment more worthwhile.

3. Expectations and business confidence. If people are optimistic about the future, they will be willing to invest because they expect higher profits. In a recession, people may become very pessimistic, so even lower interest rates don't encourage investment. (e.g. during recession 2008-12, interest rates were zero, but investment low)

4. Supply of finance. If banks are more willing to lend money investment will be easier.

5. Demand for goods. Higher demand will increase profitability of capital investment.

6. Rate of Taxes. Higher taxes will discourage investment. Sometimes, governments offer tax breaks to encourage investment.

Determinants of Marginal efficiency Capital

Marginal efficiency of Capital is governed by the expected yield of a capital asset and its supply price. In technical term the same are called:

Prospective yield:

It is the aggregate net return expected from it during its whole life. In order to determine prospective yield, annual return of the capital is worked out. Aggregate of annual return expected from a capital asset over its life-time is called total prospective yield. The remainder, after deducting cost of production from total revenue earned by the sale of output produced with the help of capital asset, is called prospective yield. With rise in prices, prospective yield increases and with the fall in prices, it decreases. Prices are likely to change in the be expressed in terms of the following equations:

Py = Q1 + Q2 + Q3 + Q4 +«««+ Qn (Here Py= Prospective Yield; Q1,

Q2, Q3, Q4 and Qn = net revenue received in the first, second, third, fourth and nth year)

Supply Price:

The other factor influencing M.E.C. of a capital asset is its supply price. The supply price of a capital asset is the cost of producing a new asset of that kind, not the supply price of an existing asset. Hence, the supply price of a capital asset is also called Replacement Cost. It remains fixed in the short period.

Marginal Efficiency of Investment

Marginal efficiency of investment, in economics, expected rates of return on investment as additional units of investment are made under specified conditions and over a stated period of time. A comparison of these rates with the going rate of interest may be used to indicate the profitability of investment. The rate of return is computed as the rate at which the expected stream of future earnings from an investment project must be discounted to make their present value equal to the cost of the project.

As the quantity of investment increases, the rates of return from it may be expected to decrease because the most profitable projects are undertaken first. Additions to investment will consist of projects with progressively lower rates of return. Logically, investment would be undertaken as long as the marginal efficiency of each additional investment exceeded the interest rate. If the interest rate were higher, investment would be unprofitable because the cost of borrowing the necessary funds would exceed the returns on the investment. Even if it were unnecessary to borrow funds for the investment, more profit could be made by lending out the available funds at the going rate of interest.

The MEI curve represents the interest elasticity of demand for investment (or capital goods), or in other words, how responsive investment is to a change in interest rates. Interest rates represent the cost of borrowing. Theoretically, the lower the rate of interest, the cheaper it is for firms to finance investment, and the more profitable the investment will be. Hence, the level of investment will rise.

Keynes, however, suggested that investment is in fact relatively unresponsive to changes in interest rates, particularly at the extreme ends of the Trade Cycle. During a recession, businessmen are generally pessimistic about the future outlook and there is also likely to be excessive unused productive capacity, which prevents a fall in interest rates from stimulating I.

On the other hand, during a boom, their optimism may cause them to disregard high interest rates. Hence, MEI is more likely to look like the relatively inelastic MEI1 than the relatively elastic MEI2.

UNIT IV

Economic Environment: -

It is very complex and dynamic in nature that keeps on changing with the change in policies or political situations. It has three elements:

(i) Economic Conditions of Public

(ii) Economic Policies of the country

(iii) Economic System

(iv) Other Economic Factors: – Infrastructural Facilities, Banking, Insurance companies, money markets, capital markets etc.

Nature of Economic Environment:

1. National entity
2. Institutional
3. Interdependence
4. Scarcity of resources
5. Need satisfaction
6. Dynamic

Economic factors-growth strategy:

Economic growth is a **long-term expansion of the productive potential of the economy**.

Trend growth refers to the **smooth path of long run national output**

Measuring the trend rate of growth requires a long-run series of data perhaps of 20 years or more in order to calculate **average growth rates** from peak to peak.

The table below tracks the growth rates achieved in the world economy for three recent years and also for developing countries excluding China and India.

Real GDP growth (annual % change) 2010 2011 2012

World Economy 4.1 2.7 2.5

Developing countries excluding China and India 5.6 4.4 3.6

What determines the rate of economic growth?

There have been numerous research studies in what determines long term GDP growth

Every country is different; each factor will vary in importance for a country at a given point in time

Remember too that in our inter-connected globalizing world, growth does not happen in isolation. Events in one country and region can have a significant effect on growth prospects in another

Growth Drivers

Here are some of the main determinants of economic growth – they apply for both developing and developed countries although the relative weighting that we might attach to each will depend on the individual circumstances facing each country or region.

Basic economic system:

1. Traditional Economy
2. Mixed Economy
3. Command Economy Market Economy

Economic planning:

According to Arthur Lewis, a development plan may consist of the following parts:

1. Survey of current economic conditions.
2. List of proposed public expenditures.
3. Discussion of likely development in private sector
4. Macro economic projections of the economy
5. Review of government policies

1. Survey of current economic conditions: The economic survey shows the changes in respect of population, NI, taxation, government expenditures and BOP, etc. It also tells us the changes needed or expected to occur in these economic variables. The economic survey is usually for one year.

2. List of proposed public expenditures: The proposals and suggestions for incurring public expenditures on development projects are invited from various government departments and agencies. After a thorough scrutiny of these recommendations, an order of priority is determined deciding what is to be included, what is to be postponed or rejected as the financial resources are less than required.

3. Discussion of likely development in private sector: It is said that both public and private sectors are inter-related and rate of economic development depends more on the working of the

private sector than expenditures in public sector. The government reviews the performance of major industries in economic planning, and sets quantitative targets for the plan period. All this involves a brief in-depth analysis of the working and implications of market structure.

4. Macro economic projections of the economy: It refers to the preparation of aggregate models which are applied to the economy as a whole. These models deal with production and consumption as single aggregates. Aggregate models are used to determine the possible growth rates in NI, the division of national product among consumption, investment and exports, the required volume of domestic savings, imports and foreign assistance needed to carry out a given development programmed. This involves massive calculations and paper work5. Review of government policies: The government through development policy can influence the decisions indirectly in the private sector.

Nature of the economy:

The general level of the development of the economy has lot of implications for business- It has significant bearing on the nature & size demand, Govt. policies affecting business etc.

Countries & even different regions within a country show great differences in the level & pattern of economic development.

A widely used method of classification of economies is on the basis of per capita income.

Accordingly countries are broadly classified as low income, middle income, & high income economies.

Beside income other criteria such as sectoral distribution of income & employment generation, social development indicators etc are applied to consider whether an economy is developed & developing one.

Structure of the economy:

Factors such as contribution of different sectors like primary (mostly agricultural), secondary (industrial) and territory (service sectors), large, small, medium, & tiny sectors to the economy & their linkages, integration with the world economy etc. are important to business because these factors indicate the prospects for different types of business, certain factors which affect the business etc.

Normally as the economy develops the share of the primary sector in the GDP and employment declines & those of other sectors increase.

Monetary policy:

Monetary policy is the process by which monetary authority of a country, generally a central bank controls the supply of money in the economy by exercising its control over interest rates in order to maintain price stability and achieve high economic growth.[1] In India, the central monetary authority is the Reserve Bank of India (RBI). is so designed as to maintain the price stability in the economy. Other objectives of the monetary policy of India, as stated by RBI, are:

Price Stability

Price Stability implies promoting economic development with considerable emphasis on price stability. The centre of focus is to facilitate the environment which is favourable to the architecture that enables the developmental projects to run swiftly while also maintaining reasonable price stability.

Controlled Expansion of Bank Credit

One of the important functions of RBI is the controlled expansion of bank credit and money supply with special attention to seasonal requirement for credit without affecting the output.

Promotion of Fixed Investment

The aim here is to increase the productivity of investment by restraining non essential fixed investment.

Restriction of Inventories

Overfilling of stocks and products becoming outdated due to excess of stock often results is sickness of the unit. To avoid this problem the central monetary authority carries out this essential function of restricting the inventories. The main objective of this policy is to avoid over-stocking and idle money in the organization

Promotion of Exports and Food Procurement Operations

Monetary policy pays special attention in order to boost exports and facilitate the trade. It is an independent objective of monetary policy.

Desired Distribution of Credit

Monetary authority has control over the decisions regarding the allocation of credit to priority sector and small borrowers. This policy decides over the specified percentage of credit that is to be allocated to priority sector and small borrowers.

Equitable Distribution of Credit

The policy of Reserve Bank aims equitable distribution to all sectors of the economy and all social and economic class of people

To Promote Efficiency

It is another essential aspect where the central banks pay a lot of attention. It tries to increase the efficiency in the financial system and tries to incorporate structural changes such as deregulating interest rates, ease operational constraints in the credit delivery system, to introduce new money market instruments etc.

Reducing the Rigidity

RBI tries to bring about the flexibilities in the operations which provide a considerable autonomy. It encourages more competitive environment and diversification. It maintains its control over financial system whenever and wherever necessary to maintain the discipline and prudence in operations of the financial system.

Fiscal Policy:

Fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors. These changes can affect the following macroeconomic variables in an economy:

- Aggregate demand and the level of economic activity;
- The distribution of income;
- The pattern of resource allocation within the government sector and relative to the private sector.

Fiscal policy refers to the use of the government budget to influence economic activity.

FEMA:

The Foreign Exchange Management Act (1999) or in short FEMA has been introduced as a replacement for earlier Foreign Exchange Regulation Act (FERA). FEMA became an act on the

1st day of June, 2000. FEMA was introduced because the FERA didn't fit in with post liberalization policies. A significant change that the FEMA brought with it, was that it made all offenses regarding foreign exchange civil offenses, as opposed to criminal offenses as dictated by FERA.

The main objective behind the Foreign Exchange Management Act (1999) is to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments. It was also formulated to promote the orderly development and maintenance of foreign exchange market in India.

FEMA is applicable to all parts of India. The act is also applicable to all branches, offices and agencies outside India owned or controlled by a person who is a resident of India.

The FEMA head-office, also known as Enforcement Directorate is situated in New Delhi and is headed by a Director. The Directorate is further divided into 5 zonal offices in Delhi, Mumbai, Kolkata, Chennai and Jalandhar and each office is headed by a Deputy Director. Each zone is further divided into 7 sub-zonal offices headed by the Assistant Directors and 5 field units headed by Chief Enforcement Officers.

Foreign Direct Investment:

Foreign direct investment (FDI) is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds

Foreign direct investment has many forms. Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intercompany loans". In a narrow sense, foreign direct investment refers just to building new facilities.

The numerical FDI figures based on varied definitions are not easily comparable.

As a part of the national accounts of a country, and in regard to the national income equation

$$Y=C+I+G+(X-M),$$

I is investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements

Types:

1. **Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

2. **Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

3. **Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

Horizontal FDI decreases international trade as the product of them is usually aimed at host country; the two other types generally act as a stimulus for it.

Methods:

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

Foreign direct investment incentives may take the following forms:

- low corporate tax and individual income tax rates
- tax holidays

- other types of tax concessions
- preferential tariffs
- special economic zones
- EPZ – Export Processing Zones
- Bonded Warehouses
- Maquiladoras
- investment financial subsidies
- soft loan or loan guarantees
- free land or land subsidies
- relocation & expatriation
- infrastructure subsidies
- R&D support
- derogation from regulations (usually for very large projects)

Importance and barriers to FDI

The rapid growth of world population since 1950 has occurred mostly in developing Countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. Only war-torn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita.

Foreign direct investment and the developing world:

A 2011 meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

Foreign direct investment in China:

FDI in China, also known as RFDI (renminbi foreign direct investment), has increased considerably in the last decade, reaching $59.1 billion in the first six months of 2012, making

China the largest recipient of foreign direct investment and topping the United States which had $57.4 billion of FDI.

During the global financial crisis FDI fell by over one-third in 2009 but rebounded in 2010.

Foreign direct investment in India:

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current (2012) election India disallowed overseas corporate bodies (OCB) to invest in India.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.

WTO and various agreement:

The World Trade Organization (WTO) is the international organization dealing with the rules of trade between nations. As of February 2005, 148 countries are Members of the WTO. In becoming Members of the WTO, countries undertake to adhere to the 18 specific agreements annexed to the Agreement establishing the WTO. They cannot choose to be party to some agreements but not others (with the exception of a few "plurilateral" agreements that are not obligatory).

Of these agreements, Trade-Related Aspects of Intellectual Property Rights (TRIPS) is expected to have the greatest impact on the pharmaceutical sector and access to medicines. The TRIPS Agreement has been in force since 1995 and is to date the most comprehensive multilateral agreement on intellectual property. The TRIPS Agreement introduced global minimum standards for protecting and enforcing nearly all forms of intellectual property rights (IPR), including those for patents. International conventions prior to TRIPS did not specify minimum standards for patents. At the time that negotiations began, over 40 countries in the world did not grant patent protection for pharmaceutical products. The TRIPS Agreement now requires all WTO members,

with few exceptions, to adapt their laws to the minimum standards of IPR protection. In addition, the TRIPS Agreement also introduced detailed obligations for the enforcement of intellectual property rights.

However, TRIPS also contains provisions that allow a degree of flexibility and sufficient room for countries to accommodate their own patent and intellectual property systems and developmental needs. This means countries have a certain amount of freedom in modifying their regulations and, various options exist for them in formulating their national legislation to ensure a proper balance between the goal of providing incentives for future inventions of new drugs and the goal of affordable access to existing medicines.

Key Provisions of TRIPS:

Patent protection:

Patent protection The TRIPS Agreement requires WTO Members to provide protection for a minimum term of 20 years from the filing date of a patent application for any invention including for a pharmaceutical product or process. Prior to the TRIPS Agreement, patent duration was significantly shorter in many countries. For example, both developed and developing countries provided for patent terms ranging from 15 to 17 years, whilst in certain developing countries, patents were granted for shorter terms of 5 to 7 years. The TRIPS Agreement also requires countries to provide patent protection for both processes and products, in all fields of technology. Before TRIPS, many countries provided only process — but not product — patents. Product patents provide for absolute protection of the product, whereas process patents provide protection in respect of the technology and the process or method of manufacture. Protection for process patents would not prevent the manufacture of patented products by a process of reverse engineering, where a different process or method from that which has been invented (and patented) is used. For example, national legislation requiring only process patent protection has enabled manufacturers in certain countries to make generic versions of patented medicines.

These countries have opted to make use of the transition period that permitted countries to delay, until 2005, patent protection in the areas of technology that had not been so protected before the TRIPS Agreement. (See transition periods below).

Protection of data submitted for the registration of pharmaceuticals:

As a condition for permitting the sale or marketing of a pharmaceutical product, drug regulatory authorities require pharmaceutical companies to submit data demonstrating the safety, quality and efficacy of the product. The TRIPS Agreement requires that WTO Members protect undisclosed test data, submitted to drug regulatory authorities for the purposes of obtaining marketing approval, against unfair commercial use. Since countries have considerable discretion to define "unfair commercial use", it is argued that countries can meet their obligations to protect test data by prohibiting "dishonest" use of data. Use by government authorities to assess the efficacy and toxicity of a pharmaceutical would not be affected, in this case.

However, it is now argued that data exclusivity is a requirement of the TRIPS Agreement. The data exclusivity approach grants the originator exclusive rights over their test data and prevents regulatory authorities from relying on the test data to register generic substitutes. Prior to the TRIPS Agreement coming into force, most countries allowed reliance on originator test data to approve generic products. Once test data was submitted by the originator company, the regulatory authorities could rely on the data to approve subsequent applications on similar products, or to rely on proof of prior approval of a similar product in another country. Generic manufacturers need only to prove that their product is chemically identical to the brand-name, original product, and in some countries, that it is bioequivalent. This approach enabled swift introduction of generics into the market without registration data-related costs. Within the data exclusivity approach, once a company has submitted original test data, no competing manufacturer is allowed to rely on these data for a period of time. Data exclusivity could thus pose an obstacle to effective use of compulsory licenses, as the entry of the generic product would be delayed for the duration of the exclusivity period or for the time it takes to undertake a new compilation of test data. The public interest in limiting data protection is to promote competition and ensure that data protection does not become the means to block timely entrance of affordable generic medicines of public health importance.

History:

The round was launched in Punta del Este, Uruguay in September 1986, followed by negotiations in Geneva, Brussels, Washington, D.C., and Tokyo, with the 20 agreements finally being signed in Marrakesh—the Marrakesh Agreement—in April 1994.The 1982 Ministerial

Declaration identified problems including structural deficiencies, spill-over impacts of certain countries' policies on world trade GATT could not manage. To address these issues, the eighth GATT round (known as the Uruguay Round) was launched in September 1986, in Punta del Este, Uruguay..... It was the biggest negotiating mandate on trade ever agreed: the talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review.

The round was supposed to end in December 1990, but the US and EU disagreed on how to reform agricultural trade and decided to extend the talks. Finally, In November 1992, the US and EU settled most of their differences in a deal known informally as "the Blair House accord", and on April 15, 1994, the deal was signed by ministers from most of the 123 participating governments at a meeting in Marrakesh, Morocco.[The agreement established the World Trade Organization, which came into being upon its entry into force on January 1, 1995, to replace the GATT system. It is widely regarded as the most profound institutional reform of the world trading system since the GATT's establishment.

Achievements:

The GATT still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations (a distinction is made between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994). The GATT 1994 is not, however, the only legally binding agreement included in the Final Act; a long list of about 60 agreements, annexes, decisions and understandings was adopted. In fact, the agreements fall into a simple structure with six main parts:

• an umbrella agreement (the Agreement Establishing the WTO);

• goods and investment (the Multilateral Agreements on Trade in Goods including the GATT 1994 and the Trade Related Investment Measures (TRIMS));

• services (General Agreement on Trade in Services (GATS));

• intellectual property (Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS));

• dispute settlement (DSU);

• reviews of governments' trade policies (TPRM).

The agreements for the two largest areas under the WTO, goods and services, share a three-part outline:

• broad principles (such as the General Agreement on Tariffs and Trade and General Agreement on Trade in Services);

• extra agreements and annexes;

• lengthy schedules (lists) of commitments made by individual countries. One of the achievements of the Uruguay round would be the Uruguay Round Agreement on Agriculture, administered by the WTO, which brings agricultural trade more fully under the GATT. Prior to the Uruguay Round, conditions for agricultural trade were deteriorating with increasing use of subsidies, build-up of stocks, declining world prices and escalating costs of support. It provides for converting quantitative restrictions to tariffs and for a phased reduction of tariffs. The agreement also imposes rules and disciplines on agricultural export subsidies, domestic subsidies, and sanitary and phytosanitary (SPS) measures through the Agreement on the Application of Sanitary and Phytosanitary Measures

Criticism:

Groups such as Oxfam have criticized the Uruguay Round for paying insufficient attention to the special needs of developing countries. One aspect of this criticism is that figures very close to rich country industries—such as former Cargill executive Dan Amstutz—had a major role in the drafting of Uruguay Round language on agriculture and other matters. As with the WTO in general, non-governmental organizations (NGOs) such as Health Gap and Global Trade Watch also criticize what was negotiated in the Round on intellectual property and industrial tariffs as setting up too many constraints on policy-making and human needs. Some articles have pointed out some reasons why the Uruguay Round resulted in an unbalanced outcome. An article asserts that the developing countries' lack of experience in WTO negotiations and lack of knowledge of how the developing economies would be affected by what the industrial countries wanted in the WTO new areas; the intensified mercantilist attitude of the GATT/WTO's major power, the US.; the structure of the WTO that made the GATT tradition of decision by consensus ineffective, so that a country would not preserve the status quo, were the reasons for this imbalance.

The Agreement on Trade Related Investment Measures (TRIMs) are rules that apply to the domestic regulations a country applies to foreign investors, often as part of an industrial policy. The agreement was agreed upon by all members of the World Trade Organization. The agreement was concluded in 1994 and came into force in 1995. (The WTO wasn't established at that time, it was its predecessor, the GATT (General Agreement on Trade and Tariffs. The WTO came about in 1994-1995.)

Policies such as local content requirements and trade balancing rules that have traditionally been used to both promote the interests of domestic industries and combat restrictive business practices are now banned.

Trade Related Investment Measures is the name of one of the four principal legal agreements of the WTO trade treaty.

TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets.

(1) Trade-Related Investment Measures:

In the late 1980s, there was a significant increase in foreign direct investment throughout the world. However, some of the countries receiving foreign investment imposed numerous restrictions on that investment designed to protect and foster domestic industries, and to prevent the outflow of foreign exchange reserves. Examples of these restrictions include local content requirements (which require that locally-produced goods be purchased or used), manufacturing requirements (which require the domestic manufacturing of certain components), trade balancing requirements, domestic sales requirements, technology transfer requirements, export performance requirements (which require the export of a specified percentage of production volume), local equity restrictions, foreign exchange restrictions, remittance restrictions, licensing requirements, and employment restrictions. These measures can also be used in connection with fiscal incentives as opposed to requirement. Some of these investment measures distort trade in violation of GATT Article III and XI, and are therefore prohibited. Until the completion of the Uruguay Round negotiations, which produced a well-rounded Agreement on Trade-Related Investment Measures (hereinafter the "TRIMs Agreement"), the few international agreements providing disciplines for measures restricting foreign investment provided only limited guidance

in terms of content and country coverage. The OECD Code on Liberalization of Capital Movements, for example, requires members to liberalize restrictions on direct investment in a broad range of areas. The OECD Code's efficacy, however, is limited by the numerous reservations made by each of the members. In addition, there are other international treaties, bilateral and multilateral, under which signatories extend most-favoured-nation treatment to direct investment. Only a few such treaties, however, provide national treatment for direct investment. Moreover, although the APEC Investment Principles adopted in November 1994 provide rules for investment as a whole, including non-discrimination and national treatment, they have no binding force.

(2) Legal Framework:

GATT 1947 prohibited investment measures that violated the principles of national treatment and the general elimination of quantitative restrictions, but the extent of the prohibitions was never clear. The TRIMs Agreement, however, contains statements prohibiting any TRIMs that are inconsistent with the provisions of Articles III or XI of GATT 1994. In addition, it provides an illustrative list that explicitly prohibits local content requirements, trade balancing requirements, foreign exchange restrictions and export restrictions (domestic sales requirements) that would violate Article III:4 or XI:1 of GATT 1994. TRIMs prohibited by the Agreement include those that are mandatory or enforceable under domestic law or administrative rulings, or those with which compliance is necessary to obtain an advantage (such as subsidies or tax breaks). Figure 8-1 contains a list of measures specifically prohibited by the TRIMs Agreement. Note that this figure is not exhaustive, but simply illustrates TRIMs that are prohibited by the TRIMs Agreement. The figure, therefore, calls particular attention to several common types of TRIMs. We would add that this figure identifies measures that were also inconsistent with Article III:4 and XI:1 of GATT 1947. Indeed, the TRIMs Agreement is not intended to impose new obligations, but to clarify the pre-existing GATT 1947 obligations. Under the WTO TRIMs Agreement, countries are required to rectify any measures inconsistent with the Agreement, within a set period of time, with a few exceptions

The GATT

The GATT is at the heart of the world multilateral trading system. As its name implies, the GATT is aimed principally reducing tariffs and other barriers to trade (e.g., quotas) between GATT members, and the elimination of discriminatory treatment in international commerce. These objectives of the GATT influence domestic law of member countries, discussed below. The focus of GATT **is** trade in goods**;** trade in services, intellectual property, and investment are covered under separate agreements (GATS, TRIPs, and TRIMs, respectively) which are also administered by the WTO.

The WTO:

The WTO was established in 1994 under the WTO Agreement. The WTO is the primary institution of the world multilateral trading system. The WTO is responsible for the administration of the trade agreements above (i.e., GATT, GATS, TRIPs, and TRIMs), ongoing trade negotiations, dispute settlement, and enforcement. Currently, approximately 150 countries are members of the WTO.

Basic GATT Obligations :

As a member country, Canada has bound itself to conduct its international trade according to the rules of the GATT. Canada, like other member countries, has the following basic obligations:

• Tariff levels commitment to apply GATT-negotiated tariff levels (and associated rules for valuation and origin);

• Most Favoured Nation (MFN) principle commitment to not discriminate in the treatment of like goods imported from different trading partners
(subject to exception for free trade areas, such as NAFTA);

• National Treatment commitment to not discriminate between like goods of domestic and foreign origins;

• Subsidies and Countervailing Duties rules; and

• Dumping and Anti-Dumping Duties rules.

These obligations are reflected in Canadian domestic customs laws, discussed below.